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Point-of-Sale Finance Series: Bank Charters, M&A, and Partnerships — Strategic Paths for Fintech and Payment Companies — Crossover Episode With *The Consumer Finance Podcast*

SPEAKERS

Taylor R. Gess | James W. Stevens | Sarah Hanna

In this crossover episode of *Payments Pros* and *The Consumer Finance Podcast*, Taylor Gess is joined by colleagues James Stevens and Sarah Hanna from Troutman Pepper Locke's Corporate and Consumer Financial Services practices to discuss the surge of interest among fintech and point-of-sale finance companies in obtaining bank charters, acquiring existing banks, and forming bank partnerships. With the current administration signaling an open-for-business posture at the federal banking agencies, and the Office of the Comptroller of the Currency (OCC) actively encouraging de novo applications, payment and fintech companies are weighing their options more seriously than they have in years. The conversation covers what is driving the spike in charter applications, including from companies in the crypto, lending, and payments spaces, and how specialty charters are factoring into that trend. James and Sarah also walk through the bank partnership landscape, where enforcement activity has cooled and focus has shifted, and explain how acquiring an existing bank charter compares to starting from scratch on timing, cost, and regulatory complexity. The episode closes with practical guidance for point-of-sale finance companies considering any of these three paths, including why building internal compliance infrastructure early, engaging regulators informally, and retaining regulatory counsel sooner rather than later can make or break a successful launch.

Transcript

Podcast: *Payments Pros – The Payments Law Podcast*
Episode: Point-of-Sale Finance Series: Bank Charters, M&A, and Partnerships — Strategic Paths for Fintech and Payment Companies — Crossover Episode With *The Consumer Finance Podcast*
Host: Taylor Gess
Guests: James Stevens and Sarah Hanna
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Taylor Gess (00:05):
Welcome to this crossover episode of *The Consumer Finance Podcast* and *Payments Pros*. I'm Taylor Gess, an associate in Troutman Pepper Locke's Consumer Financial Services regulatory practice, and I'll be your guest host for today's episode. Today, we're giving you another installment of our special highlight series on point-of-

sale finance, where we are joined by colleagues from our corporate team to highlight recent trends related to bank charters, bank M&A, and bank partnerships. But before we jump into that topic, let me remind you to visit and subscribe to our blogs, troutmanfinancialservices.com and consumerfinancialserviceslawmonitor.com.

James Stevens (01:15):
Thank you. Great to be with you.

Sarah Hanna (01:17):
Thank you for having us.

Taylor Gess (01:17):
So, James, I know we're all fielding a lot of questions from payment and fintech companies related to pursuing a bank charter. What do you think is driving that interest in bank charters and what types of companies are most actively exploring charters right now?

James Stevens (01:30):
Well, Taylor, I think the biggest driver right now is that people see a once-in-a-lifetime opportunity to potentially get a charter approved, and they think that they have to take advantage of that opportunity. Over the past, say, 10 or 15 years, it's been very difficult to get through the regulatory process for anyone other than your most traditional kind of community bank, de novo bank applicant. So if you're in the crypto space or if you're a fintech company doing lending or some kind of deposit or payments, very difficult to get through that regulatory process. The current administration has changed that dramatically.

Taylor Gess (02:49):
James, thanks so much. That's really great background to help understand the motivators and considerations with respect to bank charters. So James and Sarah, are you also seeing an uptick in bank partnerships? And how is the regulatory environment driving that increase?

James Stevens (03:04):
We certainly are seeing an uptick in the bank partnership space as well. Really, I think across the entire spectrum. Sarah, what all have we been seeing in terms of different types of partnerships?

Sarah Hanna (03:15):
We've been seeing an uptick in partnerships generally. We've been seeing a lot of lending as a service. While I think the regulatory environment has cooled off a little bit, we saw quite a spat of regulatory enforcement actions and state interest in these partnerships. Where I think we've landed is that those enforcement actions and that regulatory interest has given us a model for how to do it correctly, and that has garnered a lot of interest in the point-of-sale finance community and lending community generally.

James Stevens (03:44):
Sarah, I tell you, one of the things we've been talking about is that the enforcement actions seem a little different, too. I think that we had this big spike between 2022 and 2024 where companies that were in that space were kind of getting the book thrown at them. I feel like they're a little bit lighter now. What do you think, Sarah?

Sarah Hanna (04:01):
I would say that the focus has certainly shifted. A couple of years ago, you saw a huge focus on onboarding, third-party compliance, vendor management, that sort of thing. And I think the focus has really shifted away from that and more toward kind of BSA compliance and kind of higher level scrutiny of these programs.

Taylor Gess (04:20):
Thank you both. So now that we have a better understanding of what is happening in the regulatory environment with respect to both charters and bank partnerships, I think there's another option we should discuss. James, are some of these players looking to buy banks instead of chartering new ones? And I have to ask, is buying a bank easier or quicker than chartering?

James Stevens (04:38):
Absolutely. The uptick in charters has also been mirrored with an uptick in change of control transactions where non-banks are trying to buy typically a smaller bank and then convert the business plan, maybe eliminate offices or certainly change locations. Those transactions are really not easier from a regulatory standpoint. The statutory factors are slightly different, but essentially the regulators are going to underwrite fully the business plan, management, financials, and the risk and compliance management framework, whether it's a de novo or buying a charter. I think the real benefit is almost in the cost. It just takes a really long time to start from scratch and create a new bank. I mean, there's benefits to that. You're starting, everything's new, you can design it exactly what you want, you don't take on legacy management, legacy systems, et cetera.

But if you find a charter that has good people or good systems in place, or preferably somebody that's already in the space that you want to be in to some extent, you can acquire that bank and you start off day one with some footings in place. It can be financially much more attractive. It can also go quicker to do a bank charter acquisition, but it really requires that you have a bank in mind and that that deal can quickly get put together. What we see a lot of times is that people want to go down that route and they may spend six to 12 months looking for a charter and they don't ever find it, whereas if they would have gone a de novo route, they probably could have been open in 12 months. So if you can find one and you can get it going really quickly, you might be able to cut that time in half or even less than six months with a change of control transaction.

Taylor Gess (06:23):
James, thank you for that. And Sarah, as we start to wrap things up, I think our listeners will really want to know, if a point-of-sale finance company came to you today and said, "We want more control over our funding and product," would your advice be to charter, acquire, or partner?

Sarah Hanna (06:38):
Taylor, like with anything, I think the answer is that it depends. To James's point, partnering with an existing bank is likely the quickest way to get to market if that's ultimately your goal. Partnering with an established bank can also help you because they have the framework and compliance network in place to help get to market. If you're interested in getting to market a little bit faster, then acquiring an existing bank charter can help you do that. But again, you're onboarding a lot of their existing systems, management, and just their procedural history. Chartering would give you the most flexibility because you're essentially starting from scratch. But along with that comes higher capital needs, a much longer timeframe. Whether or not a point-of-sale finance company decides to partner with an existing bank, acquire an existing bank charter, or do a de novo bank charter ultimately depends on factors

like their timeline, their capital needs, what their management team looks like, and their regulatory risk appetite.

James Stevens (07:38):
I think that's right, Sarah. A bank charter is not for everyone. I say that it's been hard, but really that hasn't been tested too much. Historically, a lot of people have decided, "Hey, I'm in the point-of-sale finance business. I'm really good at designing user interfaces, customer onboarding, but let's leave the regulatory stuff to the banks." And I don't necessarily want to be a bank. It really just depends on the facts and circumstances and what you're trying to do. And I think this is a great place to make this observation, which is not all the people that are getting conditionally approved to form banks are going to open as banks. I think that historically, the standard of getting a conditional approval was much more rigorous, and there seems to be a lower standard that's being applied now to give quick conditional approvals to these applicants.

And so I believe that we will see a dramatically lower percentage of these banks actually pull through. And I think that when you start to see that and when people start to observe that happening, it might chill the chartering path a little bit. But that should have no impact on the partnership space, except perhaps enhance it and make people run towards it more. So there's really no right answer. It depends on your facts and circumstances, like Sarah said, your management, your ability to be a regulated entity, how quick you want to get to market, what you're trying to do. Are you just trying to get one thing, like the ability to originate a loan, or are you trying to get funding, which would help if you wanted deposits? It's a very complex set of circumstances for people to consider, and it's just great, frankly, that we have the opportunity right now for people to seriously consider whether buying or chartering is reasonable for them.

Taylor Gess (09:30):
And practically speaking, what should a point-of-sale finance company be doing now to prepare for one of those paths that we just talked about? And how would that answer change if you're legal counsel?

Sarah Hanna (09:40):
Regardless of the path that a company chooses to go down, I think it's helpful to start considering the regulatory and compliance requirements early on and start, if possible, getting into conversations and informal discussions with the potential regulators to start teeing up whichever path that they choose. Another thing to consider when you're a point-of-sale finance company would be to start building your internal compliance infrastructure now. I think that's one of the things that takes a lot longer for companies to get in place. When they go down one of these paths, I think they're more focused on the contracts, talking to regulators, and getting that in place, and then it's the actual operational components of it that may delay a launch. And so start building that compliance infrastructure now, not later. One thing that I would also recommend is to get in touch with legal counsel, preferably regulatory legal counsel, and start talking to them about the different paths, whether to partner with an existing bank, acquire an existing charter, or charter a new bank.

James Stevens (10:41):
I would contact Troutman regulatory counsel, not just any regulatory counsel. But I think Sarah's spot on. The readiness to be a regulated bank or the readiness to be in a contract with a regulated bank where a lot of that regulation is passed down to you by contract, that's really what takes a while. And no matter which route you're going to go, there's a lot of wood to chop there. And so getting prepared for either path takes exactly what Sarah just said.

Taylor Gess (11:11):
Yeah. I think that makes a lot of sense. And the compliance attorney in me loves the nod to keeping the operational compliance at the top of mind. And James, as you said, that's one of the things we do great here is blending that transactional world with the regulatory and compliance world. Thank you, James and Sarah, for being on the podcast today and updating the audience on what we are seeing in the banking space. We're going to leave this special point-of-sale finance series here for now. We'll pick back up with another very interesting topic on our next special episode of *The Consumer Finance Podcast*.

In the meantime, thanks to our audience for listening today, and don't forget to visit and subscribe to our blogs, troutmanfinancialservices.com and consumerfinancialserviceslawmonitor.com. While you're at it, why not visit us on the web at troutman.com and add yourself to our consumer financial services email list? That way, we can send you copies of the alerts and advisories that we send out, as well as invitations to our industry-only webinars that we put on from time to time. And of course, stay tuned for a great new episode of this podcast every Thursday afternoon, and look forward to the remainder of our special highlight series on point-of-sale finance coming soon to your podcast feed. Thank you all for listening.

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